



Big Short Activity in These 5 Canadian Stocks

Description

When do you sell a stock?

The typical answer you'll hear from experts is to unload your shares when the fundamentals start to deteriorate. However, usually by the time it becomes apparent that the underlying business is in trouble, the stock price has long since tumbled.

That's why it's worth paying attention to the activity of short sellers. These investors sell shares of companies they don't own in order to profit if the stock declines, and tend to be sophisticated players who are highly skilled at identifying troubled stocks. A number of studies have shown that increased short activity is a bad omen for a stock's prospects.

Fortunately, we can track the activity of short sellers. Twice a month, **TMX Group** ([TSX: X](#)) releases its Top 20 Largest Consolidated Short Position Report. Big swings in activity can signal that something is amiss. The table below summarizes the big movers in this week's report.

Company	May 15	April 30	% Change
Everton Resources (TSX: EVR)	36,998,395	25,930,710	42.68%
Bombardier (TSX: BBD.B)	79,320,865	68,260,780	16.20%
Yamana Gold (TSX: YRI)	24,243,770	22,488,201	7.81%
Power Financial (TSX: PWF)	23,747,890	27,234,121	-12.80%

Bank of Nova Scotia ([TSX: BNS](#)) 22,614,108 30,804,562 -26.59%

Source: TMX Group

Bank of Nova Scotia ([TSX: BNS](#))([NYSE: BNS](#)) and **Power Financial Corp.** (TSX: PWF) saw a noticeable decline in short activity. Shorting the Canadian banks has been a popular trade this past year over concerns that the country's overheated housing market and rising interest rates would pummel the sector. But when those catalysts failed to materialize, the stocks continued to march higher.

You can almost feel the short sellers straining their muscles as they try to hold onto their positions. However, the market's relentless advance is now forcing them to cover their positions. And given the strong earning reports we saw from **Royal Bank of Canada** and **TD Bank** last week, it's clear this rally still has legs.

Bombardier ([TSX: BBD.B](#)) makes another appearance on this list as nothing seems to be going the company's way. Last week, reports surfaced that **Republic Airways** is reconsidering the purchase of 40 C-Series Jets, a potentially huge blow for Canada's top aerospace manufacturer. However, the airline's CEO reaffirmed last week that the company has no plans to cancel its order.

The political crisis in the Ukraine also threatens to end a US\$3.4 billion deal with Russia to buy at least 100 Q400 planes.

Short sellers continue to step up their bets against the gold mining industry. **Everton Resources** and **Yamana Gold** ([TSX: YRI](#))([NYSE: AUJ](#)) saw a huge surge in short interest. But other miners appeared on the TMX Group report as well, including **Detour Gold**, **Kinross Gold**, and **Lundin Mining**.

Miners have been under pressure in the face of plunging metal prices. With less cash coming in the door, companies are being forced to cut costs, slash dividends, and shutter mines. Many are resorting to diluting shareholders with equity issues just to fund operations and keep the lights on. Without some sort of surge in gold or silver prices, the casualties are going to start mounting.

While using this list provides some interesting ideas, it's important to note that short selling can also be used to mitigate risks rather than just an outright bet against a company. It's also possible that these positions represent only one leg of a bigger trade. However, changes in short activity can be a big red flag that something is amiss.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
2. TSX:BBD.B (Bombardier)
3. TSX:BNS (Bank Of Nova Scotia)
4. TSX:X (TMX Group)

5. TSX:YRI (Yamana Gold)

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